

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

GRAYSON RURAL ELECTRIC)
COOPERATIVE CORPORATION)
_____) CASE NO. 2011-00407
)
ALLEGED FAILURE TO COMPLY WITH)
KRS 278.020)

ORDER

On November 15, 2010, Grayson Rural Electric Cooperative Corporation (“Grayson”) filed an application seeking approval for a Certificate of Public Convenience and Necessity (“CPCN”) to construct certain improvements and additions to its existing plant.¹ In support of its application, Grayson filed a copy of its 2009–2012 Construction Work Plan (“CWP”). Grayson’s CWP contains proposed improvements and additions to its plant that are required over the three-year period in order for Grayson to serve its load.

During the discovery phase in Case No. 2010-00441, Grayson revealed that it had begun construction on five projects contained in its 2009–2012 CWP prior to obtaining the requisite CPCN. Grayson also revealed that it was in the midst of upgrading its Landis & Gyr Turtle 1 system to a Turtle 2 system in order to, among other things, accommodate optional inclining block and off-peak rate structures. The

¹ Case No. 2010-00441, Application of Grayson Rural Electric Cooperative Corporation for a Certificate of Public Convenience and Necessity Pursuant to KRS 278.020 and 807 KAR 5:001, Section 9, and Related Sections Authorizing Certain Proposed Construction (Ky. PSC, Sept. 23, 2011).

estimated cost of the Turtle 2 system is \$840,000 to upgrade 12 substations, plus \$100 per meter for those meters needing to be upgraded.

KRS 278.020 provides, in relevant part, that:

No person, partnership, public or private corporation, or combination thereof shall commence providing utility service to or for the public or begin the construction of any plant, equipment, property, or facility for furnishing to the public any of the services enumerated in KRS 278.010, except retail electric suppliers for service connections to electric-consuming facilities located within its certified territory and ordinary extensions of existing systems in the usual course of business, until that person has obtained from the Public Service Commission a certificate that public convenience and necessity require the service or construction.

A year prior to filing its application for a CPCN in Case No. 2010-00441, Grayson was specifically placed on notice by Commission letter to Grayson dated November 12, 2009 that construction work plans involve significant capital expenditures for new facilities and, therefore, construction work plans are not deemed ordinary extensions in the usual course of business. Thus, construction work plans are not exempt from the CPCN requirements of KRS 278.020(1). The November 12, 2009 letter further specifically stated that a CPCN shall be obtained for all work plans prior to beginning construction of the facilities contained in those work plans.

In addition, Grayson should have obtained a CPCN prior to upgrading its Turtle 1 system to a Turtle 2 system given that the upgrade was a significant capital expenditure that cannot be deemed an ordinary extension of the existing system in the usual course of business.

Because Grayson has apparently failed to obtain a CPCN before beginning the construction described in its 2009–2012 CWP and prior to implementing the Turtle 2

upgrade, the Commission finds it necessary to investigate this matter further. The Commission finds that a prima facie case has been made that Grayson violated KRS 278.020(1) by beginning construction without first obtaining a CPCN. Therefore, the Commission establishes this investigation into Grayson's apparent failure to comply with KRS 278.020 in order to determine whether it is appropriate to assess a civil penalty pursuant to KRS 278.990 for Grayson's apparent violation of KRS 278.020.

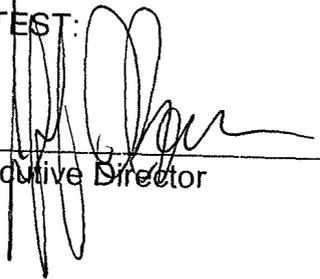
The Commission, on its own motion, HEREBY ORDERS that:

1. Grayson shall submit to the Commission, within 20 days of the date of this Order, a written response to the allegations contained in this Order.
2. Grayson shall appear on January 18, 2012 at 10:00 a.m., Eastern Standard Time, in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard in Frankfort, Kentucky, for the purpose of presenting evidence concerning the alleged violations of KRS 278.020 and to show cause why it should not be subject to the penalties prescribed in KRS 278.990(1) for this alleged violation.
3. At the scheduled hearing in this matter, Grayson shall be prepared to present evidence on the adequacy and reasonableness of its practices related to ensuring that CPCN filings are timely and properly made and whether such practices require revision.
4. The January 18, 2012 hearing shall be recorded by videotape only.
5. Any request for an informal conference with Commission Staff shall be set forth in writing and filed with the Commission within 20 days of the date of this Order.
6. The record of Case No. 2010-00441 shall be incorporated herein by reference.

By the Commission

ENTERED ^{PA}
OCT 24 2011
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Carol Ann Fraley
President & CEO
Grayson R.E.C.C.
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